

ВЛИЯНИЕ ГЛОБАЛЬНЫХ ВЫЗОВОВ НА БИЗНЕС-МОДЕЛИ И БИЗНЕС-ПРОЦЕССЫ КОМПАНИЙ

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RESPONSE OF THE JAPANESE GAMING COMPANIES TO THE COVID-19 PANDEMIC

Abstract:

The article presents how the three largest Japanese video game companies Capcom, Sega and Bandai Namco changed their business processes and implemented new strategic initiatives because of the COVID-19 pandemic situation. Moreover, the work contains the analysis of changes in business segments and ESG activities, which were carried out due to external environment calls.

Keywords:

video game industry, Japanese gaming companies, COVID-19, impact of pandemic, ESG factors.

The Covid-19 pandemic is the main challenge faced by absolutely all sectors of the economy and gaming industry is not an exception. Our scientific interest in this issue is focused on the video game industry. Therefore, we considered how the largest gaming companies dealt with this unforeseen situation, what processes and business segments were affected, what measures were taken and what long-term initiatives were implemented.

Three leading Japanese video game companies Bandai Namco, Sega and Capcom [1] were selected as the subject of the study. Japan is the third largest video game market [2]. One of the features of the gaming companies in this country is that their business is diversified – they not only produce games, but also release toys, arcade machines, amusement facilities, etc. Therefore, we are also interested in how different business segments (physical and digital products) have changed due to the pandemic.

Moreover, it is especially important to identify which actions took place by these companies due to this external threat. During the research work key initiatives were identified with accordance to ESG framework. This framework gives a deeper understanding of the role of video gaming companies under unexpected situation, which overall forced changing in business models.

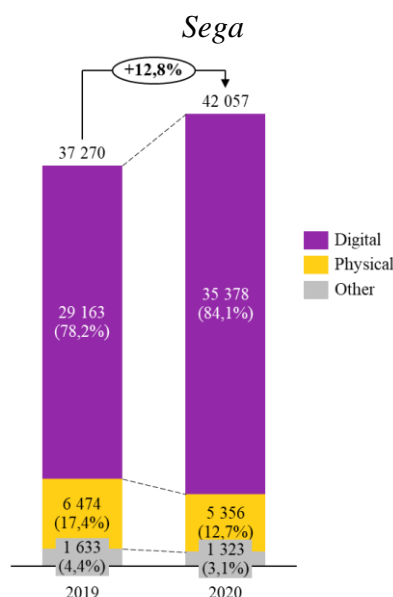
Capcom

Capcom's business contains such segments as:

- digital contents,
- arcade operations,
- amusement equipments,
- others [3].

First segment releases digital products, and the rest – physical. For the analysis of changes in sales and share in revenue, we grouped the segments in these groups. Picture 1 shows that revenue in general in the second quarter of the fiscal year 2021 (end of September 2020) increased by 12,8% [4]. Most of the revenue comes from digital content. Herewith, sales of digital products increased both in absolute terms and as a share in total sales (by 5.9 percentage points). As for the physical products, the situation is the opposite. Sales fell, and the share decreased by 4,7 percentage points.

In physical products we included the segments of arcade operations and amusement equipments. The company operates amusement facilities, primarily Plaza Capcom arcades, in Japan. These arcades are predominantly in large commercial complexes [3]. To prevent the spread of COVID-19, they changed the operating hours of some stores and temporarily closed others. Due to these factors and additionally social distance and a decline in demand (because people were forced to stay at home) sales decreased [3]. As for digital contents, Capcom started focusing on esports. Before the pandemic, the company held esports tournaments for several years in a row, but now they promote esports as a safe form of entertainment during the COVID-19 pandemic due to its compatibility with online play. To mitigate the risk of virus spread an annual series of tournaments were conducted fully online. By streaming the competition online via a special channel, they have made it possible for everyone to watch from anywhere. Therefore, it will allow to expand the audience globally. Moreover, Capcom is planning to create regional esports team franchise, establish a training institution and hold tournaments for female players [3].



Picture 1 – Changes in sales and shares (Q2 of 2020 and 2021)

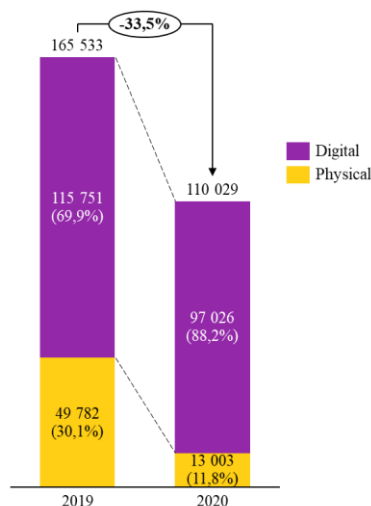
The company operates in:

- pachislot and pachinko machines,
- entertainment contents,
- resort business [5].

According to picture 2, in which digital products include entertainment content, and physical products – pachislot and pachinko machines and resort business, sales of digital products fell, but

their share in the total sales increased from 69,9% to 88,2% [6]. As for physical products, their sales in both absolute and relative terms have declined sharply.

The main reasons for such situation regarding pachislot and pachinko machines are the temporary closure of pachinko halls throughout Japan and the slowdown in demand due to the extension of the deadline for removing machines conforming to previous regulations [5]. In resort business, they also had to refrain from operating. Because of the COVID-19 Sega adjusted the schedules, business plan, and other aspects of the projects [5]. Therefore, they announced structural reforms initiatives for each segment of business to overcome current adversities. These reforms assume transformation to a fixed expenses level commensurate with the business structure, streamlining of these expenses, reviewing of the business portfolio and non-business assets, and etc [5].



Picture 2 – Changes in sales and shares (Q2 of 2020 and

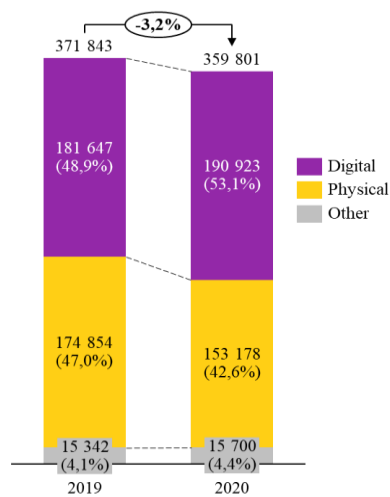
Bandai Namco

Bandai Namco runs a business in the segments of:

- toys and hobby,
- network entertainment,
- real entertainment,
- visual and music production,
- IP creation,
- others [7].

To analyze sales and shares of digital and physical products, we distributed toys and hobby and real entertainment in physical goods. Real entertainment includes amusement machines and facilities. Digital products consist of network entertainment (video games), visual and music production, and IP creation (production of animation, management, and administration of copyrights). Sales, in general, decreased by 3,2% in Q2 of the fiscal year 2021 in comparison with Q2 2020 (September 30 of 2019 and 2020) [8]. Sales of digital products increased and the share in total sales grown up by 4,2 percentage points. The share of physical products declined by 4,4 percentage points. Compared with Sega, the changes are not too significant.

The company, as well as Sega and Capcom, closed amusement facilities, plants, and retail stores, canceled or postponed the live events [7]. Pandemic affected the changes in schedules of the projects. To deal with the current situation, Bandai Namco will reconsider business models and promote digital transformation initiatives. They mention that it is important not to make the transformation a core business activity. Also, it should be linked with the new working-style reforms [7].



Picture 3 – Changes in sales and shares (Q2 of 2020 and 2021)

Thus, we considered how the pandemic has affected business processes and what measures are being taken by the selected companies. To summarize these measures, we have compiled tables. Table 1 shows urgent measures that are mostly focused on the short-term period and are dependent on the situation. Table 2 reflects the initiatives that will affect the business in the long run.

Table 1 – Impact of pandemic and measures of the companies

Name of company	Segments	Impact	Measures
Capcom	Digital contents	The inability to hold esports events and tournaments in a live format	The transition of esports tournaments to a fully online format
	Arcade operations	High risk of infection and, as a result, low demand	Changes in operating hours Temporary closure of some stores
	Amusement Equipment	Low demand	Temporary closure
Sega	Pachislot and Pachinko Machines	Slowdown in pachinko hall operator's purchasing motivation, extension of the deadline for removing previous regulation machines	Refraining from operating
	Entertainment Contents	Expanding stay-at-home consumption in Consumer games area	Changes in schedules
	Resort Business	Decline in user number due to facility suspension	Temporary closure; Review of the scale of investment
Bandai Namco	Toys and Hobby	Distribution restrictions, influence on production at in-house plants and cooperating plants	Store closures, suspended operations at production lines overseas
	Network Entertainment	Unexpected situation for the work process	Changes in schedules and the development of certain titles

	Real Entertainment	High risk of infection and, as a result, low demand	Amusement facility closures in Japan and overseas
	Visual and Music Production	Unexpected situation for the work process	Changes in schedules of production, live event postponement, or cancellation
	IP Creation	Unexpected situation for the work process	Changes in schedules

Table 2 – Initiatives of the companies

Name of company	Initiatives
Capcom	Promotion esports as a safe form of entertainment: - creating regional esports team franchises - holding tournaments specifically for female players - establishing a training institution
Sega	Implementation of structural reforms: - reviewing balance sheet with a focus on non-business assets - building an organizational framework that can adapt to changes in the market environment - cost reduction centered on fixed costs across the Group
Bandai Namco	- Digital transformation that is not a core business activity but a means for the achievement of goals - Linkage of DT with working-style reforms

In order to get a full picture, it is important to mention ecological, social and governance initiatives, which were carried out under Covid-19. According to the research paper “Why and how investors use ESG information: evidence from global survey” Amir Amel-Zadeh and George Serafeim distinguish several ways where these indicators can be applied: including ESG factors into traditional financial analyses, positive/negative screening of the company, thematic investments [9]. Thus, it is important for the company to give an appropriate response on the external challenge, in order to be investment attractive and fulfill positive reputation.

All these companies successfully cope with these tasks. According to CSR/ ESG ranking (2020), which is conducted using different indicators concerning contribution to community, employees well-being, contribution to environment and governance Sega scored 79%, Capcom 66% and Bandai Namco 70% [10].

It is not surprising that Capcom, Sega and Bandai Namco paid the most attention to the social aspect due to the prevailing conditions of external environment. For instance, Capcom for the purpose of safety of its customers closed its amusement park [3]. Sega also temporarily closed Orbi Yokohama before other facilities had taken that step, and subsequently suspended operations at commercial facilities and video game arcades according to local rates of infection and local government policies [5].

As for Bandai Namco each of its business segment contributed to its stakeholders' well-being:

- Toys and Hobby Unit: SEEDS CO., LTD., has made masks to prevent droplet infection and has donated them to medical institutions;
- Network Entertainment Unit: BANDAI NAMCO Entertainment Inc. has provided PAC-MAN Championship Edition 2, a home video game, for free on a limited-time basis;
- BANDAI NAMCO Arts Inc. is supporting business people and specialist staff related to live music entertainment, a field in which activities have had to be suspended or cancelled;
- IP Creation Unit: SUNRISE INC. distributed free of charge a poster promoting hand washing that features Aqours, a school idol group that appears in Love Live! Sunshine!! (in collaboration with the Ministry of Health, Labor and Welfare) [7].

In addition, all of the events and championships were carried out in the online format in order to prevent spread of Covid-19.

As for the corporate governance all these companies created safe working conditions for their employees using individual protection means as well as organization of remote work.

The table 3 presents the full list of activates, which were carried in the response to Covid-19 pandemic.

Table 3 - ESG initiatives under Covid-19

Company	Ecological	Social	Governance
Capcom	<ul style="list-style-type: none"> - Conserving resources through digital sales of game software - Sharing distribution networks with other companies in the same industry 	<ul style="list-style-type: none"> - Capcom Pro Tour was held via online channel - Carried out a campaign to provide fun activities for time spent at home - Anti COVID-19 measures were introduced in the amusement park 	<ul style="list-style-type: none"> - Hybrid virtual shareholder meeting that enabled remote participation via the Internet
Sega	<ul style="list-style-type: none"> - Seagaia Beach Cleaning Campaign in Hitotsuba was canceled 	<ul style="list-style-type: none"> - Various events have been canceled indefinitely due to COVID-19. - start receiving email inquiries, rather than using call centers. - Tokyo Rainbow Pride 2020 had been held online - temporarily close Orbi Yokohama and video game arcades according to local rates of infection and local government policies - Distributed 124,700 masks to our facilities across the country - Donated masks to local governments and associations with connections to the SEGA SAMMY Group. (total of 12,500 masks to the Shinagawa Children's Dining Network) 	<ul style="list-style-type: none"> - created a webpage entitled in order to disseminate information, including messages from the president and notes on working from home - Anti Covid 19 measures (one mask a day to each employee who is required to be at the office) - The outbreak of the virus forced almost all our employees to work remotely
Bandai Namco		<ul style="list-style-type: none"> -Donated ¥100 million to the COVID-19 Solidarity Response Fund for the World Health Organization (WHO) - made masks to prevent droplet infection and has donated them to medical institutions. - provided PAC-MAN Championship Edition 2, a home video game, for free on a limited-time basis. -supporting live music entertainment industry - distributed free of charge a poster promoting hand washing that features Aqours (in collaboration with the Ministry of Health, Labour and Welfare). - offering free online distribution of exercise videos that use IP to enable children to enjoy exercise even when they are indoors 	<ul style="list-style-type: none"> - prepared and enacted remote working conditions within our offices

In this paper, we analyzed how the largest Japanese game developers reacted to an unexpected situation full of uncertainty. Such a trend can be observed - due to restrictions and reducing the risk of spreading the virus, the processes of business segments that produce a physical product were

suspended. Therefore, their share in total sales decreased. The demand for digital goods has increased, so their share has grown. The pandemic has affected the timing of projects, the revision of the scale of investments in those types of businesses where physical products are involved, as well as the organization of events planned in a live format.

In general, the short-term measures of the companies are similar, but they have chosen different types of strategic initiatives that can significantly affect the results in the long term. Capcom decided to become an active player in the esports market, as this is one of the opportunities to attract a global audience and adapt to the current situation because this activity is compatible with the online format. Sega is implementing structural reforms that will affect all the segments of the business. Bandai Namco will review the business models as a whole and implement a digital transformation adapted to the new reality. The paper describes how companies acted in the months following the coronavirus. However, it is interesting to study in the future how effective the proposed initiatives were.

As for ESG initiatives it is seen a similar approach for Sega, Bandai Namco and Capcom. All these companies took appropriate actions in order to maintain good working conditions as well as protecting society from spread of virus.

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